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SUBJECT: The Long March: From Fossils to Feathers: Heyuan's Bid to Take Flight

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¶1. (SBU) Summary: As part of the Long March, a series of road journeys through the Guangzhou consular district (septel), we traveled to Heyuan, an impoverished prefecture largely untouched by the recent rapid development in South China. Heyuan is bidding to draw further investment away from more developed regional competitors by leveraging its relatively unspoiled environment and abundant resources to offer a new, cleaner, more sustainable model for industrial development. End Summary.

Reading the Fossil Record as a Symbol of the Future

¶2. (U) Heyuan, in South China's Guangdong Province, boasts the world's largest collection of dinosaur eggs. In a low, dusty building off a side road, double-sided racks stacked eight high and running the length of a long room contain more than ten thousand specimens unearthed nearby. A display case in one corner holds the museum's prize exhibit: a fossil the curator claims is the long-sought missing link that proves the dinosaurs of yesteryear took flight and became the birds of today.

¶3. (U) Perhaps. Certainly it is a compelling story, one city fathers hope to mimic as they usher their largely undeveloped prefecture into a bright future. Their vision is as clear as the pristine lake upon whose shores the town rests: entice clean, light industry and skilled labor to a strategically situated region blessed with clear air, cheap and abundant power, and almost unlimited water - a precious resource in modern China. They even have a slogan: "More money, less hassle, better health."

Some Damming Problems Prevent Full Economic Development

¶4. (SBU) The path to achieving that vision is less clear. The lake that supplies the water and the dam that supplies the power are both controlled at the provincial level; while Heyuan's leaders are tasked with protecting these resources, they have no say in their sale, and receive little of the proceeds. Industrial infrastructure remains

in many respects rudimentary, and until now the region has experienced a brain drain as talented, educated inhabitants move away in search of economic opportunity.

Rising from the Mud - Heyuan's Humble Beginnings

¶15. (SBU) Heyuan - a prefecture whose own vice mayor, Wu Youbi, describes as "backward" and "hilly" - clearly has some way to go to achieve prosperity. Formed in 1988 from northwestern Guangdong's five poorest counties, it is a net importer of rice and pork even though 76 percent of the population live in rural areas. The wealth of urban dwellers is four times that of the countryside, whereas nationwide that ratio is 3 to 1. Some 20% of Heyuan's population have been forced to go elsewhere to find work.

¶16. (U) Despite relative poverty and lack of development, Heyuan does have some things going for it. It is strategically located a short distance from two of the mostly highly developed and economically active cities in China: Shenzhen, on the border with Hong Kong, and Guangzhou. Despite that proximity, Heyuan's own lack of development has left it with plenty of room for expansion and abundant natural resources, including what the city's vice mayor calls "the last drop of clean water in Guangdong province."

¶17. (U) Heyuan's Evergreen Lake (Wan Lu Hu), formed in 1958 when the East River (Dong Jiang) was dammed just below its source, covers 350 square kilometers, is up to 118 meters deep, and provides the largest portion of Hong Kong's drinking water. When we visited the lake, it was clearly showing some strain from the past three years of drought.

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The lake also supplies Shenzhen, Dongguan, Zhuhai and many other fast-developing Pearl River Delta (PRD) cities. Local leaders claim the water is clean enough to drink untreated.

¶18. (U) In the heady early days of China's rush to development, the charge of protecting the lake was seen as an unwelcome burden that often tied local leaders' hands and stymied their efforts to keep up with the pace of development around them. Now, as neighbors like Shenzhen and Guangzhou struggle to provide enough clean water and reliable power for their burgeoning populations and industries, it has come to be seen as an asset that can help lure light industry away from those areas with the promise of more sustainable, ecologically viable development.

Spreading Their Wings - Light Industry Takes the Lead

¶19. (U) Heyuan's leaders laid out the details of the 11th five-year plan in a series of meetings. Not surprisingly, the focus was on economic growth and industrial development, driven by a new High Tech Development Zone (HTDZ). Project Director Li Yannan explained the rationale and planning for the Zone, which is nearing completion of the first phase of construction. According to Li, Heyuan must sustain 15% growth over the next five years to meet its targets. While part of this will come from developing mining, agriculture and tourism, the primary driver will be industrialization, stimulated and guided by the creation of the High Tech Development Zone.

¶10. (U) Planning for the HTDZ - which might more aptly be termed a "Light Industry Zone" - began in 2002. The Chinese national government invested RMB 500 million (about USD 6.25 million), attracting additional investors from the mainland, Hong Kong, Taiwan, Korea, Japan, Europe and the United States. Organizers claim a total of 93 companies have entered into contracts to invest USD 750 million. Of

these, 58 currently have facilities under construction in the zone; 38 are due to be operational by the end of this year, the rest in early 2007. Hong Kong-based Long Kee, a maker of machine molds that employs some 10,000 people, is currently the zone's largest operation. Makers of electronics, toys, carpets and stationary are also present.

¶11. (U) Roads, power, water and other infrastructure are nearing completion in a 6.5 sq km area of the Zone.

Ultimately, the HTDZ is meant to cover some 40 sq km, with an 18.3 sq km "center." The developers envision a mixed urban area of industry, housing, shopping and community services that will eventually support some 300,000 workers and contribute RMB two billion (USD 250 million) per year to the economy.

Staying Green: Protecting the Water Supply Comes First

¶12. (U) The Zone is meant to address not only the benefits but also the unique environmental concerns raised by the proximity of Evergreen Lake. Companies are held responsible for primary waste water treatment, but the HTDZ also boasts China's most advanced secondary waste water treatment facilities. The provincial Environmental Protection Bureau (EPB) has established a 24-hour a day water monitoring station on site, and the zone will be required to maintain downstream water quality standards. Certain high-polluting industries, such as electroplating, chemical coatings, cement, ceramics and wood processing, will be banned entirely.

¶13. (U) The zone's developers believe it has a number of highly attractive benefits to offer industries wishing to expand in South China. First is the location, on the Hong Kong/Beijing rail line and with highway links to major regional population centers. Second is the support infrastructure, said to comprise waste processing, an extensive road network, power supplies and government services. Third is a stable power supply; power from the

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dam keeps Heyuan from exceeding national and provincial power grid quotas, as happens often in nearby Dongguan and other developing cities. Fourth is a commitment to serving business on the part of the local government; new companies can register in less than a week, with a local administrator assigned to each and graded on the service he provides. Lastly, developers point to a series of factors they say result in significantly reduced production costs: land is cheaper than in more developed areas, with the maximum price for land in Heyuan set at just 1/8th of the minimum price in Shenzhen; water is cheap and plentiful thanks to the lake; license fees are kept low; and labor costs are also low. The Zone's developers say these factors together represent a 20-25% reduction in production costs relative to nearby prefectures.

¶14. (U) Finding qualified workers to staff these new, more technology-driven facilities is an issue. Some 70% of workers in the HTDZ come from outside Heyuan. While efforts are underway to develop a homegrown work force - the local technical institute recently received reclassification as a university, and provincial job fairs are being extended to the municipal level - that trend is likely to continue. The Zone's developers have formed cooperative agreements with outside educational institutions; in February, they claim to have successfully recruited more than 23,000 workers.

Into the Clear Blue Sky - Environment as Economic Driver

¶15. (U) Throughout meetings with Congenoffs, Heyuan's leaders were quick to point to their prefecture's relatively unspoiled environment and resources as a major

selling point, one that sets Heyuan apart and makes it more attractive to light industry. Their desire to protect the quality of the local water and air arises from both a provincial requirement to do so and a recognition that these resources, properly managed, can serve as an economic driver.

¶116. (U) Heyuan EPB Deputy Director Lai Zhi Gang reminds visitors that the prefecture contains within its borders 87% of the East River basin, and almost half the river's total length. His bureau allows only minimal tourist activity on Evergreen Lake, the river's headwater, and has banned all development along its shores. Visitors stay in hotels in town, and all waste generated at the lake is shipped out of the area. EPB officials have implemented educational programs to raise local awareness of environmental issues.

¶117. (U) Beyond that, Lai points to a three-part strategy intended to create a "win/win" situation in which industrial development and environmental protection go hand-in-hand. Step one is to clean up existing sources of pollution: some RMB 200 million (USD 25 million) has been spent to clean up more than 60 sites, including a small pharmaceuticals manufacturing complex and a cement plant; 30 high-polluting businesses have been shut down entirely; and a new wastewater treatment plant is being built. Step two involves regulating new industries. The HDTZ is designed to attract low-pollution, new-technology industries and lessen their environmental impact by gathering them together in a single, well-maintained area. All new industries are required to obtain an environmental impact report assuring their run-off water achieves the highest level (level 1) on China's industrial emissions scale; the standard throughout the rest of Guangdong province is level 2. The final step is effective enforcement of environmental regulations. Heyuan authorities have shut down all restaurants and hotels upstream of the lake and set up 24-hour a day water quality monitoring. Since the city was founded in 1988, they claim to have refused more than RMB 20 billion (USD 2.5 billion) in investments deemed incompatible with environmental protection.

No Farmer Left Behind:
Heyuan's Vision of the New Socialist Countryside

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¶118. (U) While the primary focus of Heyuan's 11th Five-year Plan is on developing light industry, the majority of the prefecture's inhabitants will continue to live a rural existence for the foreseeable future. According to Li Yunhan, Deputy Director of the Heyuan Agriculture Bureau, the prefecture has designated 120 sites as pilot villages for developing the New Socialist Countryside called for by Chinese President Hu Jintao.

¶119. (U) Li says income in rural areas rose slightly more than in urban areas - 37% to 35% - over the last five years, though from a much lower base. The Heyuan Agricultural Bureau has identified four strategies for developing the countryside. The first is to shift farmers' emphasis from growing crops to raising livestock. The second is to shift cultivation from subsistence crops to cash crops; the ratio is currently .82 to 1, while the goal is a ratio of 1 to 1. The third is a campaign to spur agricultural development. The fourth strategy is optimization of the economic structure of villages. This will be achieved by raising incomes, building homes, developing infrastructure, focusing on product quality and safety standards, protecting villages from natural disasters, and promoting commoditization of rural products by encouraging "dragonheads." Dragonheads are leading enterprises, large, cooperative organizations that help

market and distribute farmers' products. Heyuan farmers currently participate in a total of 103 dragonheads: six are organized at the provincial level, 23 at the prefecture level, and the rest are municipal.

¶20. (U) The ultimate goal is to improve farmer's living conditions, particularly in the areas of housing; drinking water quality and safety; domestic infrastructure, moving from wood ovens to gas; and waste removal, with projects to recycle both animal and human waste into methane that can be used to cook food and light and heat homes. Health care is being addressed in the form of a rural insurance program funded 10% from participant fees, 40% from central government contributions, and 40% from municipal government contributions. Participants will be reimbursed up to RMB 5,000 (USD 624) for medical costs. Prefecture leaders also claim to be investing some RMB 400 million (USD 50 million) in hospitals, renovating 41 clinics, and providing each village with a RMB 10,000 (USD 1,250) subsidy for a local medical unit.

¶21. (SBU) All of this takes place against the backdrop of a push to further urbanize Heyuan's population. The goal for the next five years is to move from the current 24.3% of population in urban areas to 38%. While it is not clear exactly how this is meant to be achieved, it appears any change may come more through reclassification than actual physical movement of populations.

Comment: Limited by Its Role as Water Source

¶22. (SBU) Heyuan's leaders have both a clear plan for developing their prefecture, and a project - the HTDZ - in place to do so. In fact, theirs is still a largely rural prefecture, and will likely continue to be for some time. With little revenue generated from sales of power and water from the local lake and dam, funding will be an issue, giving greater influence to those bringing in investment, and less to those promoting sustainability and environmental protection. Providing the education and support necessary to help rural dwellers become industrial workers will also be important. The vision is in place, and it's a good one, but time, wise governance and adequate funding will all be required to make it a reality.

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